

Business In Nebraska

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MANAGING CHANGE

by
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from a speech given to the
Lincoln Chamber of Commerce

Many of you have made changes in your businesses, and you have not found it easy. Mark Twain once said that "A man who holds a cat by the tail learns something he can learn in no other way." I suspect that many of you feel as if you personally have held that cat. Changes in technology, social norms, and the economy are happening rapidly. We must work hard to keep up-to-date in adapting and adjusting to change.

Two Kinds of Change

One can define two kinds of change: structural change and cyclical change. Understanding the difference between these kinds of change can be worth millions of dollars. Structural change is a fundamental, permanent change in the way things such as manufacturing, construction, communicating, growing crops, etc. are done. Such permanent change usually is driven by scientific discovery and new technology. When structural change occurs, society never returns to the old way of doing things.

Cyclical change is a recurring, fluctuating change that is due to government policy or group opinions and attitudes. The story of the Hunt family of Texas may help you differentiate structural change from cyclical change. What the Hunts did was to bet their fortune that inflation, which was increasing in the late 1970s, was a structural change. They invested in land and silver, with the expectation of protecting their money from inflation. When inflation plummeted due to changes in government policy, their fortune crashed with it. (Inflation is not a structural change, it is a cyclical change.)

Here are some examples of structural changes. Communication has gone through a series of structural changes from telegraph, to telephone, to radio, to television, to satellite. Now communication around the world can be instantaneous. Every one of those changes was structural, a permanent change due to advances in science.

Energy sources have changed from wood, to oil, to natural gas, to nuclear fission. The next new source on the horizon is fusion energy. If we achieve

fusion, it means making electricity out of water. It will be a major structural change if we can accomplish it.

Not all changes are positive. We have gone from clubs, to swords, to guns, to bombs, to missiles, to nuclear bombs, and now to laser weapons.

The structural changes that are occurring in agriculture have a big impact in Nebraska. We have gone from horse to machinery, from the use of elementary chemicals to sophisticated fertilizers and pesticides. We now have biogenetic alteration of plants and animals. All of these technologies are available around the world, which is one of the reasons we have a world food surplus. Twenty-five nations of the world consistently are producing surpluses and trying to sell these surpluses in world markets. Current estimates are that less than 3 percent of the world population faces physical risk from hunger. Where there is hunger in the world, it is a problem of the social system and of distribution...not of world food supply.

Let me give you an idea of what may be coming in biogenetics. I was in a laboratory about six months ago where they were working on pigweed. Why would anybody work on pigweed? In a drought when almost all other plants are dead, pigweed is flourishing—because it is so resistant to drought. The scientists are trying to find the gene that controls drought resistance in pigweed and transplant that gene into corn, soybeans, and other crops. If that structural change is accomplished, it will change the way our crops are grown forever. In the same lab, scientists were working toward a soybean oil substitute. These scientists predict that with a few genetic changes, a new plant form they have discovered could provide such a soybean oil substitute. The kicker here is that the plant grows wild in seawater.

Those kinds of changes are on the horizon. With an investment of about \$3 billion, the entire human genetic structure could be mapped. If we make that investment, it is possible that not long after the turn of the century we may be able to reproduce an entire human being from just one of the body cells. What a structural change that will be!

Cyclical change is different. Inflation rates and oil prices are examples. The Hunts bet that inflation was a structural change, but it was not. It was a cyclical change because it is under the control of government. Economic expansions and recessions are cyclical. We have had 43 recessions and 43 recoveries in this nation since we started keeping records. We will have another recession--and another recovery.

One difference between a structural change and a cyclical change is that a structural change often is driven by an underlying change in technology. If something is changing in your business, ask yourself, "What is driving this change?" If it is government policy, it is probably cyclical; if it is technology, it is likely structural. If your current success is due to government policy or subsidy, watch out—things can change rapidly. If technological changes are occurring, bringing structural change, make sure you stay up-to-date and competitive.

Sometimes there are structural changes with cyclical changes occurring within them. This sometimes tricks individuals into believing that a structural change is only cyclical. The structural changes that bring greater efficiency in agricultural production force the real price of commodities down over time. We will have cyclical eruptions where soybean prices or wheat prices rise temporarily because of a supply/demand cycle, but it is important not to confuse that with structural change. The underlying real price trend is down for almost anything that is produced using advancements in technology. That is certainly true in agriculture.

Although adapting to all of these changes will be difficult, the changes bring very good news and a new challenge. If we can avoid nuclear war or other disasters for the next 15 years, we will see unprecedented economic prosperity in the world because of the changes that technology is bringing. It is likely that the biggest problem we will face in 15 years will be how to distribute the resources of a technologically advanced society in a way that preserves and enhances the human spirit.

The Change Curve

Let's look at change now in another way. The graph in figure 1 represents a conceptual view of change.

On the left side of the graph, you see the amount of change. On the bottom of the graph are the years

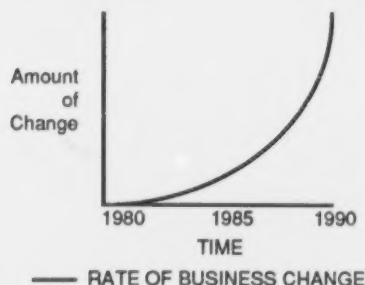


Figure 1

1980, 1985, and 1990, a dimension of time. You see that the rate of change is accelerating, which means that the business environment is going to change much more between 1985 and 1990 than it did between 1980 and 1985—maybe four times as much.

All businesses have a rate at which they are comfortable with change. Change at that rate is represented conceptually by the dotted line. (Figure 2.)

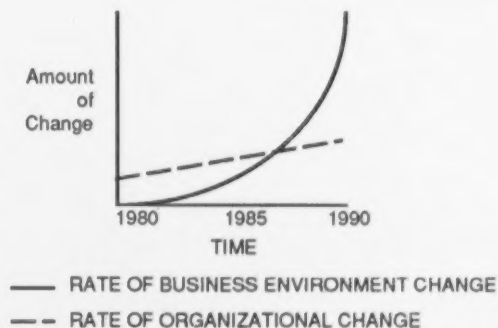


Figure 2

If you continue to change at the same rate from 1985 on as you did between 1980 and 1985, by the year 1990 you are far behind the change curve. As the change curve accelerates, the rate of organizational change sufficient for the mid 1980s is not going to be good enough to keep you ahead of the change curve in the future.

For the business that refuses to change at an accelerated rate to stay ahead of the change curve, usually one of two things happens. It either fails or it seeks government protection or subsidy because it no longer can compete in the marketplace. It then remains in business as long as it has political power to maintain its subsidy.

Change has no names on it; it affects everybody—a company that does not accelerate its rate of change will fall behind the change curve. What is the answer? Accelerated adaptation to change.

A company may start its response to a rapidly changing environment by saying "Something is going on here, we do not quite understand what. We better form a strategic planning task force to see what radical changes we must make in our thinking and business strategies." They then speed the rate that they are willing to change so they can continue in business.

Now, I want to say a few things about Nebraska.

How Many Farmers?

The number of persons involved in production agriculture in Nebraska and the nation continues to decline. In the late 1800s, 75 percent of the Nebraska workforce was engaged in direct agricultural production. In 1986, it was less than 10 percent. Of the 2.3 million farms in the United States, 700,000 produce 85 percent of the food and fiber. By the year 2000, the U.S. will need only 50,000 farming units to meet 75 percent of all domestic and export needs. That means you can take the owners of the country's farming units that produce three-fourths of our domestic and export needs, put them in Memorial

Stadium, and still have room for the University of Nebraska-Lincoln student body.

Subsidies

Depending on how one measures it, between 40 percent and 60 percent of Nebraska net farm income now comes from government payments of one kind or another. We should not delude ourselves. It is likely these subsidies will diminish and end eventually. Those who bet on subsidies continuing indefinitely are betting that the U.S. taxpayers will continue to support the production of many billions of dollars worth of food that clearly is needed no longer.

Reduced Need For Agricultural Land

It is probable that one-third to one-half of the current agricultural land in Nebraska will be out of production by the year 2000. Why? Because advances in biotechnology will reduce the amount of land needed for agricultural production. At the same time, many other nations will continue to increase their agricultural production, which will reduce U.S. export markets.

Population

Population statistics play a role in this too. Believe it or not, the growth rate for world population peaked in 1965. Birth control technology has brought the growth rate down substantially. If birth control technology can be made available around the world, population growth should continue to slow significantly and eventually stabilize.

With world food production increasing dramatically and the world population growth rate decreasing, you can see that the world is facing some enormous food surpluses. Other nations of the world are expanding their food supply; for example, in the last ten years, Brazil has brought into production agricultural land that is the equivalent in size to three Nebraskas.

When discussing Nebraska population, it comes as no surprise that nonmetropolitan population in Nebraska grew 3.4 percent from 1967 to 1984 while metropolitan population grew 19.3 percent. Nearly 80 percent of Nebraska's counties reached their peak

population prior to 1940. Now the population is becoming more and more concentrated in a handful of counties; 67 percent of the state population is in 20 percent of the counties. The age structure varies significantly between the two parts. Total Nebraska employment rose from 623,000 in 1967 to 802,000 in 1985—that is an increase of 28.7 percent. Nonagricultural employment rose 42.7 percent, while agricultural employment dropped by 33.5 percent.

Where Are the Jobs?

Employment changes will recur in Nebraska. When compared with 1967, percentage employment changes in Nebraska have been as follows:

Services	+92.3 percent
Finance, insurance, real estate	+72.3 percent
Wholesale and retail trade	+51.3 percent
Government (including public utilities)	+46.8 percent
Transportation, communications, utilities	+19.8 percent
Manufacturing durables	+13.9 percent
Construction	+12.2 percent
Agriculture	-33.5 percent

A clear trend in the Nebraska employment figures is a move toward service employment (transportation, public utilities, trade, finance, insurance, real estate, services, government, education, information) and away from goods-producing employment (agriculture, construction, manufacturing). In 1967, goods accounted for 35 percent of employment and services 65 percent. In 1985, goods were down to 24 percent and services up to 75 percent. This is a structural change precipitated by technological advances that reduce manpower needs and increase efficiency in the production of goods.

This does not mean that agriculture and manufacturing are not important employers in the Nebraska economy—they are. But they are relatively less important in maintaining and creating jobs than they have been in the past.

One also should note that Nebraska has a concentration of employment in insurance when compared to other states. More than 20,000 Nebraskans are employed in the insurance industry.

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MEASURING NEBRASKA BUSINESS

MYTHS OF ECONOMIC DEVELOPMENT

Economic Development Myth Number 1: At a recent Nebraska meeting on economic development, listeners were informed that if a new job is created and the employee pays \$1,000 in state and local taxes, \$5,000 additional state and local tax dollars are generated. There are two errors here. The first is to assume a super multiplier of 5. For the state of Nebraska, the multiplier is more likely to be a maximum of 2.25. In many cases, it is considerably less. The second error is the idea that economic development is merely creating jobs. Jobs are jobs according to this theory. It is important to

note that some jobs are more important than others, especially those jobs that create exports. If a new retail trade merchant enters the scene and creates 50 jobs, few Nebraska exports are created. The jobs result in Nebraskans redistributing how they spend their funds. If the new retail firm, however, produces computer software or writes insurance for clients in California, New Mexico, Connecticut, and other points outside of Nebraska, Nebraska has an export product—the jobs are superjobs with a larger impact than others. If it were a simple matter of creating jobs, we would have solved the economic

(continued on page 5)

1. ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES CHANGE FROM PREVIOUS YEAR				
December 1986	Current Month as Percent of Same Month Previous Year		1986 to Date as Percent of 1985 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	102.70	103.70	101.60	104.10
Agricultural	89.10	86.60	85.30	92.40
Nonagricultural	105.50	104.10	104.30	104.40
Construction	92.80	102.80	95.60	106.10
Manufacturing	99.70	96.70	98.00	96.60
Distributive	107.60	106.40	105.60	106.50
Government	105.00	105.60	106.50	106.30
Physical Volume	102.90	102.80	99.90	102.60
Agricultural	98.00	91.60	89.30	96.70
Nonagricultural	104.20	103.20	102.20	102.70
Construction	90.80	100.60	93.20	103.60
Manufacturing	102.30	99.50	99.90	98.70
Distributive	106.40	105.20	103.60	104.50
Government	101.30	101.90	102.40	102.20
2. CHANGE FROM 1967				
Indicator	Percentage of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	403.00	484.00		
Agricultural	449.80	349.50		
Nonagricultural	395.70	488.30		
Construction	226.20	500.70		
Manufacturing	354.60	309.70		
Distributive	418.60	584.50		
Government	441.00	498.00		
Physical Volume	139.60	156.70		
Agricultural	205.40	154.00		
Nonagricultural	129.50	156.70		
Construction	61.50	136.00		
Manufacturing	145.30	124.30		
Distributive	126.40	176.50		
Government	154.50	157.70		

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES			
Region Number and City*	City Sales**	Sales in Region**	
	December 1986 as percent of December 1985	December 1986 as percent of December 1985	1986 to Date as percent of 1985 to Date
The State	104.70	110.20	107.80
1 Omaha	104.40	109.80	109.30
Bellevue	95.60		
Blair	113.70		
2 Lincoln	106.40	112.20	107.90
3 South Sioux City	114.40	122.00	111.60
4 Nebraska City	118.60	115.80	109.50
6 Fremont	106.40	111.20	109.80
West Point	107.50		
7 Falls City	118.00	116.50	109.40
8 Seward	113.00	112.10	112.40
9 York	106.10	116.80	111.40
10 Columbus	108.10	111.20	108.30
11 Norfolk	108.70	116.10	111.90
Wayne	112.90		
12 Grand Island	106.10	106.10	105.70
13 Hastings	109.70	109.60	107.00
14 Beatrice	105.70	109.80	106.50
Fairbury	98.70		
15 Kearney	108.50	113.10	107.30
16 Lexington	101.20	114.20	103.30
17 Holdrege	103.90	105.80	104.50
18 North Platte	97.60	104.10	106.10
19 Ogallala	115.60	113.90	104.10
20 McCook	99.80	109.60	101.80
21 Sidney	92.90	94.50	92.80
Kimball	78.20		
22 Scottsbluff/Gering	108.60	112.20	103.40
23 Alliance	101.40	97.50	102.80
Chadron	71.90		
24 O'Neill	116.00	115.10	108.20
25 Hartington	123.70	121.00	114.40
26 Broken Bow	103.10	111.60	105.40

* See region map

** Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.

Compiled from data provided by Nebraska Department of Revenue

1. Detailed tables and graphs of the components of county personal income are available from the Bureau of Business Research.
2. Requests for single counties will be honored without charge.
3. A complete set of data for all 93 Nebraska counties is available for \$25.00. Call (402) 472-2334 or write to Bureau of Business Research, 200 CBA, University of Nebraska—Lincoln, Lincoln, Nebraska 68588-0406.

MEASURING NEBRASKA BUSINESS

development problem long ago. We could create 1,000 government jobs, which would produce \$1 million in state and local revenue, which in turn would create another \$5 million in tax dollars.

Economic Development Myth Number 2: In testimony before the legislature on the construction of a new facility for the University, it was pointed out that this facility would generate additional tourism dollars. It was asserted that these dollars would turn over within the local economy three times, only a slightly less powerful multiplier than alluded to in myth number 1.

Something seems to be amiss in this economic development project. The football stadium is filled to capacity—additional seating would necessitate an expansion of the stadium. The multiplier for football tourism spending locally is going to be less than it would be for the state. The multiplier is probably around 0.75 in Lincoln, meaning each dollar spent for tourism in Lincoln will generate an additional 75 cents worth of spending. It could be slightly higher, but it is most unlikely that it would approach the 3.0 level recently noted.

Donald E. Pursell

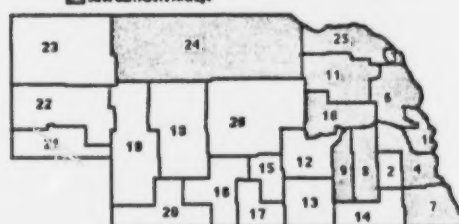
4. December 1986 CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Employment (1)	Building Activity (2)	Power Consumption (3)
The State	98.90	84.60	88.80
Alliance	99.70	152.60	116.50
Beatrice	98.00	228.40	76.70
Bellevue	84.60	148.30	101.20
Blair	101.00	50.20	88.10
Broken Bow	98.30	258.00	79.80
Chadron	99.60	85.00	85.10
Columbus	99.60	72.30	82.80
Fairbury	99.80	73.00	91.20
Falls City	99.30	110.80	97.40
Fremont	101.30	53.90	80.10
Grand Island	100.70	85.50	84.90
Hastings	99.30	146.30	234.00
Holdrege	99.30	112.40	75.20
Kearney	102.70	28.60	105.90
Lexington	90.60	44.90	82.60
Lincoln	101.00	65.10	89.40
McCook	98.70	95.20	78.50
Nebraska City	104.70	248.90	89.70
Norfolk	97.00	107.30	85.20
North Platte	100.80	42.70	85.10
Omaha	105.40	91.90	88.50
Scottsbluff/Gering	102.80	78.30	88.80
Seward	101.40	11.40	89.20
Sidney	102.20	171.40	87.00
South Sioux City	107.30	260.50	63.60
York	101.30	289.90	81.00

(1) As a proxy for city employment, total employment for the county in which a city is located is used.
 (2) Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
 (3) Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
 Source: Compilation by Bureau of Business Research from reports of private and public agencies.

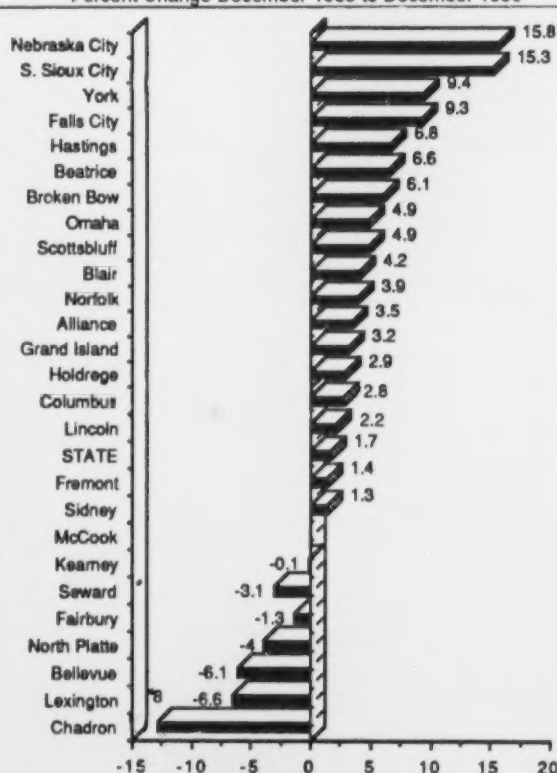
5. PRICE INDEXES			
December 1986	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	331.10	101.10	101.90
Commodity Component	284.20	98.00	99.00
Wholesale Prices	298.10	96.10	97.10
Agricultural Prices		94.6	
United States	227.00	90.90	95.50
Nebraska	219.00	92.90	95.00

*Using arithmetic average of monthly indexes.
 Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture

1986 YEAR TO DATE AS PERCENT OF 1985 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



City Business Index
Percent Change December 1985 to December 1986



If you think about the communication revolution and the existing strength of insurance in Nebraska, there is every reason we should be the national center for insurance claims processing and processing for other financially related services.

Economic Development Targets

This brings us to prospective economic development targets. They are telecommunications, insurance, high technology manufacturing (including pharmaceuticals, opto-electronics, engine technology, scientific instruments, etc.), biotechnology, and various service industries related to information. But any business willing to access national and international markets can be successful and create new jobs for Nebraskans. Look at what is happening in franchising. More than one-third of the retail sales of this nation are made through franchises. The fastest way to expand an existing business operation is through franchising. It is estimated that by the turn of the century more than 50 percent of the national retail sales will be through franchising. Nebraska can participate vigorously in this rapidly developing sector of the economy. This is one of the reasons we are excited about our newly established Center for Franchise Studies at UN-L.

Turning the Corner on Economic Development

Nebraska may have substantial difficulty directing emphasis to new economic opportunities because of the state's relatively large current investment in agriculture.

If we look at Nebraska compared to the United States, Nebraska's farm income still accounts for a good share of its income overall.

Percentage of Income

	Nebraska	National
Late 1960s Farm Income	15.4%	3.5%
1980s Farm Income	9.0%	1.5%

Unlike Nebraska, most states will not have substantial political opposition from agricultural interests when attempting to redirect investment to new economic sectors. These other states, therefore, may be able to change and adapt to new economic opportunities faster than Nebraska can. This brings us back to our two alternatives: a business (or state) in a rapidly changing environment can stop old investments and make new investments, or it can fail. It is critical that Nebraska make investments in new areas that can provide economic growth and new jobs.

What Place for the University and Research?

The University of Nebraska is a major state resource that has been relatively untapped for direct state economic development purposes, except for agriculture. Since the businesses of information discovery, scientific research, technological advances, transmission of information processing, and marketing of information will be the major job creators of the future, the areas of the country that have the greatest opportunity for flourishing are those with ties to major research institutions and universities.

Let me conclude by congratulating the citizens of Nebraska who are making an effort to develop a strategic plan for the state. It is exactly what the state needs to be doing. The people of Nebraska are a great and resourceful people. We have adapted successfully to many structural changes since the state was settled, and we also will adapt to the current changes—and prosper.

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No June Business in Nebraska

The budget squeeze at the University of Nebraska—Lincoln, the College of Business Administration, and the Bureau of Business Research will force us to omit the June 1987 issue of Business in Nebraska. Continued publication of Business in Nebraska is under review.

Several alternatives are under consideration, including less frequent publication, a different format, and modified printing and distribution methods. Reader ideas are important, and your suggestions and comments are invited.

For the time being, the Bureau of Business Research will maintain monthly retail sales data. This information will be available to interested persons on request. Stringent budgets are forcing the Bureau of Business Research to evaluate all of its activities, including publication of Business in Nebraska.

NEBRASKA FARM REAL ESTATE MARKET TRENDS

Bruce Johnson*

The value of Nebraska farmland continued to fall in 1986, but generally at a more moderate rate than that in previous years. Preliminary estimates from the UNL Department of Agricultural Economics annual survey show an average decline for the state of nearly 10 percent from February 1, 1986 to February 1, 1987 (see Table 1). Combined with earlier downturns, that places today's average value of Nebraska farmland at just 41 percent of its peak value in 1980-81. Few other states have encountered this magnitude of decline, although many have experienced a larger annual decrease over the past year.

Wide variations in value changes occurred during 1986. In the eastern third of the state, the all-land average decline ranged from 4 to 7 percent, while all-land averages fell 13 to 15 percent elsewhere (see Figure 1).

Clearly, dryland cropland values have exhibited the most stable performance during the past year, with a number of outstate reporters indicating areas of little or no decline and even some instances of modest increases since February 1986. For example, the northeast region exhibited the greatest stability, with reported average values for dryland cropland (no irrigation potential) and for center pivot irrigated cropland even slightly higher than those of a year ago.

For grazing land in the central and western areas of the state, the percentage declines for the 12 month period were sizable. Moreover, the value de-

clines from peak-year levels for grazing land have been larger than those of any other type of land. Here too, however, reporters indicated some renewed activity in the past few months and possibly some degree of price stabilization since late 1986.

With 1986 being the sixth consecutive year of land value declines in the state, the overall adjustment has been substantial and not without economic pain. Today's values are roughly comparable to levels of thirteen years ago when the farm sector was just beginning to embark on a robust economic period (see Figure 2). In short, the devaluation of the 1980s virtually has wiped out the appreciation of the bullish 1970s. For the sector as a whole, Nebraska's farm real estate now is valued at about \$14 billion, representing a value loss of more than \$20 billion from its peak in 1981. This represents a considerable loss of wealth to rural Nebraska, impacting retirees and other rural residents as well as operating farmers. Both the private and the public sectors of rural communities will continue to bear the consequences of this loss for years to come.

In real terms (adjusted for inflation) farmland values in Nebraska are lower now than at any time since the mid-1940s. Even real values of the mid-1930s were higher than present levels. In other words, for the owner who has held a parcel of farm property for the past 40 years, there has been no change in the real wealth associated with that asset.

For the individual owner who bought farmland six to ten years ago, the loss of equity has been

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Type of Land & Year	Crop Reporting District								
	North- west	North	North- east	Central	East	South- west	South	South- east	STATE
----- Dollars Per Acre -----									
Dryland Cropland (No Irrigation Potential)									
Feb. 1987 Value	242	190	520	246	626	288	377	416	371
Percent Change:									
from Feb. 1986	-6.60	-4.00	4.20	-6.50	-6.40	-6.50	-8.50	-1.60	-3.40
from peak year	-42.20	-45.10	-48.50	-56.20	-55.60	-47.30	-50.00	-60.80	-52.30
Dryland Cropland (Irrigation Potential)									
Feb. 1987 Value	285	250	567	325	707	328	503	508	484
Percent Change:									
from Feb. 1986	-8.60	-16.70	-5.20	-11.40	-5.20	-13.00	-12.20	-6.80	-7.60
from peak year	-58.10	-55.80	-49.90	-63.10	-60.40	-55.30	-64.90	-63.80	-59.40
Grazing Land (Tillable)									
Feb. 1987 Value	77	99	267	135	336	115	187	236	124
Percent Change:									
from Feb. 1986	-23.80	-26.70	-2.90	-18.70	-8.20	-21.20	-25.20	-2.10	-19.50
from peak year	-69.30	-62.10	-57.10	-69.00	-61.90	-65.40	-73.70	-63.90	-65.30
Grazing Land (Nontillable)									
Feb. 1987 Value	60	71	166	106	238	68	120	173	83
Percent Change:									
from Feb. 1986	-15.50	-16.50	-7.30	-19.10	-9.20	-19.00	-24.00	-2.80	-15.30
from peak year	-64.30	-61.20	-60.30	-68.70	-61.60	-68.70	-71.30	-63.50	-63.90
Hayland									
Feb. 1987 Value	160	119	188	195	271	148	175	201	144
Percent Change:									
from Feb. 1986	-15.80	-22.70	-19.30	-15.20	-19.10	-18.70	-7.90	-8.20	-19.60
from peak year	-51.20	-64.80	-66.30	-59.50	-63.30	-59.80	-60.70	-63.90	-61.60
Gravity Irrigated Cropland									
Feb. 1987 Value	650	567	775	802	959	718	863	843	826
Percent Change:									
from Feb. 1986	-13.80	-7.40	-13.90	-14.70	-1.60	-17.20	-10.40	-11.90	-10.20
from peak year	-58.90	-46.20	-56.50	-61.60	-60.10	-55.10	-61.70	-58.40	-59.30
Center Pivot Irrigated Cropland									
Feb. 1987 Value	417	396	703	541	888	487	665	723	580
Percent Change:									
from Feb. 1986	-15.90	-1.00	0.40	-13.80	-8.40	-12.70	-15.60	-8.20	-8.50
from peak year	-57.80	-55.30	-51.70	-58.80	-57.90	-56.60	-61.60	-61.90	-56.70
All Land Average									
Feb. 1987 Value	165	115	502	324	709	232	474	482	306
Percent Change:									
from Feb. 1986	-13.10	-15.40	-3.80	-14.50	-4.80	-15.00	-12.70	-6.90	-9.70
from peak year	-58.40	-57.60	-53.40	-62.50	-59.40	-56.80	-62.70	-61.70	-59.10

Table 1.
Average Reported Value of Nebraska Farmland For Different Types of Land by Crop Reporting District
February 1, 1986 and February 1, 1987

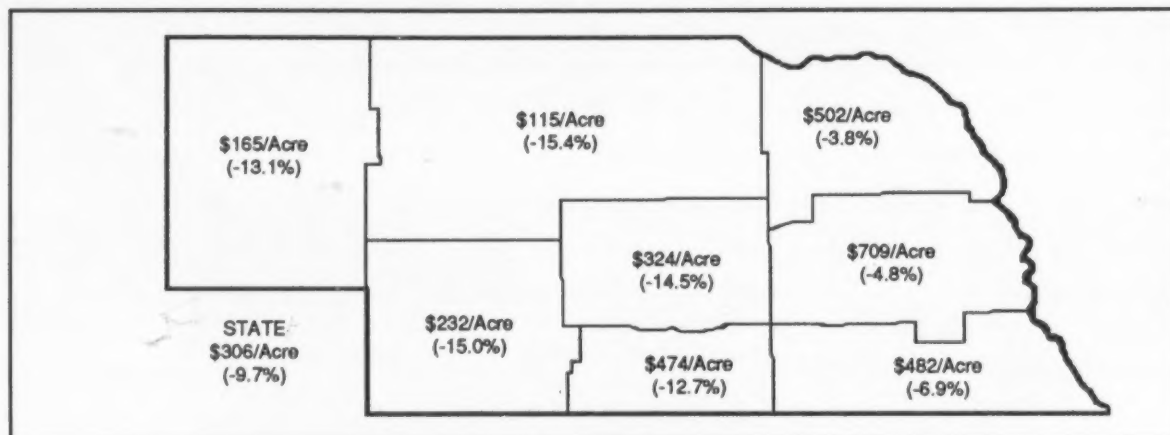


Figure 1.
Average Value of Nebraska Farmland, February 1, 1987 and Percent Change From One Year Ago

severe, particularly if acquisition involved debt financing. For many in this position, the financial stress has been and continues to be acute. For some, it has led to termination of their farming operations.

For others, who perhaps by good fortune as much as by good planning did not acquire farmland prior to its recent value decline, today's values may be perceived quite differently. For them, it may be considered an opportunistic time to acquire land for a fraction of the bid prices of just a few years ago. Reporters from around the state indicate interest on the buyer side of the market is picking up and, in turn, undoubtedly is contributing to stabilization of values in recent months.

There are other factors that also appear to be stabilizing farmland values. Farm income levels have improved over the past two years as favorable weather patterns have prevailed throughout most of the state. At the same time, some modest declines in production input costs occurred, while government farm programs have buoyed crop revenues. Livestock producers also have welcomed back profits to their operations in recent months. The culmination of these income factors definitely has slowed the downward spiral in agricultural land values and rekindled buyer interest.

Changes in the financial markets also have been influential in the market for farmland. Lower mortgage interest rates recently have bolstered real estate market activity to some degree. This may not be the critical factor that it was in the early 1980s, however, when nearly nine out of every ten farmland transactions involved debt financing. Today, a significant portion of farmland acquisitions (more than one third and perhaps nearly one half) are cash sales involving no indebtedness. Moreover, those purchases that do carry some debt usually involve sizable down payment amounts. In short, the market has shifted dramatically from debt capital to equity capital (See Figure 3). Buyers in the marketplace today are generally not heavily credit dependent, but rather are able to assemble sizable equity amounts either from cash reserves or from conversion of other capital.

Perhaps a greater influence of financial markets on farmland has been alternative investment

opportunity. Lower rates of return to bonds and other financial securities have prompted investors to consider alternative investments—including farmland. The rate of economic return to certain types of farmland now appears favorable to some of these options, unlike the situation of a few years ago when a government bond could yield the investor 15 percent annually while farmland would yield 3 percent. Given today's land value levels, the annual rate of return to cropland in some parts of the state will exceed 8 percent of asset value and be competitive with other investment opportunities.

WHAT MAY LIE AHEAD?

Although some recent signs of greater market strength exist, questions still remain. Have we witnessed the market trough? Are stable values likely for the foreseeable future? Could we see market values rebound? Questions such as these are difficult to address because the market itself is complex. Future trends in farmland values will be influenced by a host of factors that can be classified in institutional, biological, and economic sets. We

Continued on page 6

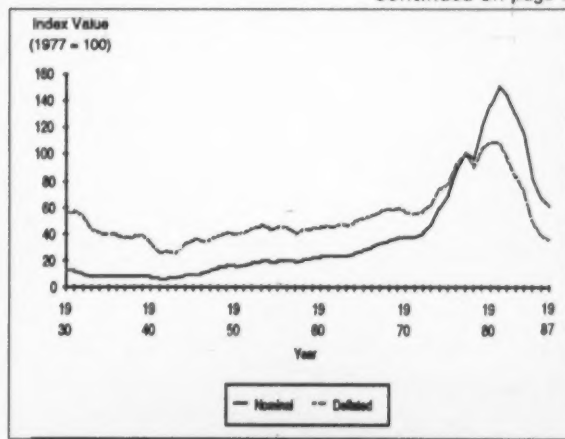


Figure 2.
Index of Farmland Values, 1930—87
Nebraska, Nominal & Deflated

MEASURING NEBRASKA BUSINESS

ECONOMIC DEVELOPMENT MYTHS

Lower taxes frequently are touted as a means to promote economic growth. It has been suggested that Nebraska's growth rate would be stimulated if tax rates for individuals and corporations were lowered. Nationally, an experiment in the 1960s indicated that tax cuts could increase U.S. output. It, however, is not clear that cuts at the state level will stimulate growth.

Florida, Tennessee, and Texas have fared well without state individual income taxes and with limited or no corporate income taxes. At the other extreme, however, are states such as Connecticut and Minnesota with high rates of taxation that have enjoyed spectacular growth of employment and income.

Minnesota led all states in the north central region of the U.S. from 1982 to 1986 in employment and income growth, and it has one of the highest tax structures. A person earning \$50,000 in Minnesota would pay an estimated \$3,589 in Minnesota state income taxes, compared to \$2,315 in Iowa or \$1,300 in Nebraska (Table 4). Connecticut also has experienced rapid growth, as have Florida and Tennessee (Table 4). Texas gained substantially until oil prices collapsed in late 1985.

Lowering taxes in Nebraska may stimulate economic growth, but it may not. Other factors, such as the rate of growth of the national economy, fluctuations in the value of the dollar, variations in interest rates, or changes in commodity prices, may override any adjustments in Nebraska's tax rates.

As Nebraska shapes an economic development strategy, it is important to remember there is no single magical solution to Nebraska's development and growth problems. There is no substitute for old-fashioned work in promoting and diversifying the state by developing and encouraging its small businesses, creating educational opportunities for Nebraska citizens, and maintaining and expanding the state's infrastructure (including roads, water, safety, and health delivery systems). Much of this work is dull and unspectacular. Taxes may need to be raised for education or infrastructure. It is unlikely that economic development will occur, however, without a commitment to a first-rate education system and a well-maintained state infrastructure.

Donald E. Pursell

Table 4
1984 Individual State Income Tax Liabilities For Selected Gross Incomes

GROSS INCOME	Married-One Wage Earner Taxable Income			Number Employed November, 1981 (thousands)	Number Employed November, 1986 (thousands)	Percent Change 1981-1986
	25,000	50,000	100,000			
STATE:						
CONNECTICUT	0	0	0	1,505	1,723	14.40
FLORIDA	0	0	0	3,850	5,375	39.60
IOWA	900	2,315	5,248	1,337	1,360	1.70
KANSAS	407	1,359	4,317	1,161	1,173	1.00
MINNESOTA	1,399	3,589	7,610	2,047	2,140	4.50
MISSOURI	540	1,390	2,898	2,128	2,391	12.40
NEBRASKA	405	1,300	4,031	756	773	2.20
NORTH DAKOTA	224	719	2,228	290	298	2.80
SOUTH DAKOTA	0	0	0	321	329	2.50
TENNESSEE	0	0	0	1,883	2,156	14.40
TEXAS	0	0	0	6,394	7,489	17.10

Source: Comparison of the 1984 Individual Income Tax Burdens by State.

Minnesota Taxpayers Association, 1984.

Notes: Connecticut and Tennessee taxed capital gains, dividends, and interest only.

Florida, South Dakota, and Texas had no income tax.

Employment numbers were taken from Employment and Earnings, a U.S. Department of Labor, Bureau of Labor Statistics publication. Data are from the January 1987 edition, Table D-1, pp 150-154 and from the February 1982 edition, Table E1, pp. 124-128.

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MEASURING NEBRASKA BUSINESS

REVIEW AND OUTLOOK

The national economy is building momentum. Preliminary estimates of first quarter 1987 gross national product show real growth of 4.3 percent, the best performance in several quarters. Employment is 2.5 million above year ago levels, with gains concentrated in the service sector. Service sector jobs range from minimum wage jobs in retailing to well paid positions in computer servicing, repair, data processing, advertising, financial services, and health care. According to the Bureau of Labor Statistics, there have been more well paying service jobs created during the past two years than low paying service jobs.

Nebraska's economy is slightly above year ago levels and is expected to improve 1.5 to 2.0 percent during the coming twelve months. Nationally, real growth of around 3.0 to 4.0 percent is expected. Employment in Nebraska is 8,000 above year ago levels and will continue to show modest increases during the next year. Omaha employment was 292,000, compared with 289,000 a year ago.

Lincoln employment was 108,000, up from 107,000 last year.

Low grain prices make it difficult for grain producers to make adequate returns, but livestock producers, particularly hog producers, are doing better. The agriculture economy will provide little boost to the state economy in the coming year.

Fourth quarter Nebraska personal income stood at \$21.7 billion, up \$400 million from the fourth quarter of 1985. Fourth quarter results were not impressive, which can be explained in part by a surge in personal income during the fourth quarter of 1985.

For all of 1986, Nebraska personal income was up 3.1 percent. When adjusted for price changes of 1.6 percent, real personal income rose nearly 1.5 percent. Components showing respectable gains include earnings from services, dividends, interest, rent, Social Security payments, and proprietors income. These trends will continue in 1987.

Donald E. Pursell

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
January 1986	Current Month as Percent of Same Month Previous Year		1987 to Date as Percent of 1986 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	100.30	103.00	100.30	103.00
Agricultural	89.10	90.20	89.10	90.20
Nonagricultural	102.40	103.30	102.40	103.30
Construction	95.30	101.40	95.30	101.40
Manufacturing	93.20	97.60	93.20	97.60
Distributive	104.60	104.60	104.60	104.60
Government	103.60	106.60	103.60	106.60
Physical Volume	99.50	101.60	99.50	101.60
Agricultural	96.60	92.60	96.60	92.60
Nonagricultural	100.20	101.90	100.20	101.90
Construction	93.80	99.70	93.80	99.70
Manufacturing	95.10	99.40	95.10	99.40
Distributive	103.10	103.10	103.10	103.10
Government	98.60	101.60	98.60	101.60
2. CHANGE FROM 1967				
Indicator	Percentage of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	377.40	479.50		
Agricultural	388.80	292.80		
Nonagricultural	375.40	485.50		
Construction	233.80	504.00		
Manufacturing	343.10	311.60		
Distributive	394.60	576.40		
Government	412.80	503.40		
Physical Volume	131.10	154.10		
Agricultural	180.90	131.30		
Nonagricultural	123.40	154.90		
Construction	63.70	137.30		
Manufacturing	140.00	124.20		
Distributive	118.50	173.00		
Government	152.40	157.30		

3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES			
Region Number and City	City Sales**	Sales in Region**	
	January 1987 as percent of January 1986	January 1987 as percent of January 1986	1987 to Date as percent of 1986 to Date
The State	102.20	98.90	98.90
1 Omaha	97.60	95.20	95.20
Bellevue	108.80		
Blair	101.10		
2 Lincoln	105.20	99.80	99.80
3 South Sioux City	89.20	94.40	94.40
4 Nebraska City	97.40	105.40	105.40
6 Fremont	92.60	93.60	93.60
West Point	85.60		
7 Falls City	106.70	104.50	104.50
8 Seward	105.70	97.00	97.00
9 York	107.60	101.90	101.90
10 Columbus	105.20	101.40	101.40
11 Norfolk	109.00	102.80	102.80
Wayne	101.80		
12 Grand Island	100.30	97.30	97.30
13 Hastings	101.40	99.70	99.70
14 Beatrice	96.60	101.50	101.50
Fairbury	112.70		
15 Kearney	114.90	110.30	110.30
16 Lexington	94.50	104.10	104.10
17 Holdrege	92.90	96.80	96.80
18 North Platte	98.60	93.50	93.50
19 Ogallala	159.50	121.00	121.00
20 McCook	103.90	97.90	97.90
21 Sidney	93.00	83.40	83.40
Kimball	72.30		
22 Scottsbluff/Gering	116.30	111.70	111.70
23 Alliance	89.60	98.10	98.10
Chadron	117.10		
24 O'Neill	109.60	100.70	100.70
25 Hartington	105.80	111.80	111.80
26 Broken Bow	92.80	97.90	97.90

** Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue

NOTE: Employment data from the Department of Labor were not available this month.

Continued from page 3
briefly will discuss each.

Several institutional elements carry implications for the farmland market. Agricultural credit institutions, as they determine the cost and availability of credit, will impact buyer participation to varying degrees. Until rates of return to farmland exceed the interest rates on debt, the caution associated with debt financing likely will continue. Likewise, the recently enacted federal tax reform system removes some of the traditional tax incentives associated with real estate investment. Also, institutional measures that restrict ownership can create a dampening effect on the buyer side of the agricultural land market; here in Nebraska, statutes prohibiting foreign (alien) ownership of farmland as well as the constitutional restriction on nonfamily corporations and limited partnerships now preclude certain buyer entities that otherwise may be present.

Undoubtedly the most prominent institutional factor impacting farmland value trends is the future of federal farm programs. Nebraska's farming sector is particularly dependent upon these programs, with government price support payments often representing the difference between profit and loss. Any significant reduction in these government transfers further would reduce cropland values. To some extent, the possibility of such reductions already is being factored into today's market in the form of bid levels being discounted for uncertainty.

Biological factors impact the agricultural land market because demand for such land is derived demand based upon what the land produces. For example, one must be cognizant of the recent advances in world food production, with numerous countries expanding food output and becoming self sufficient. In essence, this represents other land areas of the world substituting for U.S. farmland, thereby dampening its potential earnings and value. Likewise, a similar outcome arises from the advent of biotechnology and genetic engineering, which may expand agricultural productivity greatly. In this instance, another input (technology) is substituted for farmland. Conversely, the future may include major environmental problems associated with nonland inputs (such as commercial fertilizers and chemicals) leading to a greater dependence on farmland.

Finally, many economic factors will affect the future direction of farmland values. The nature of the

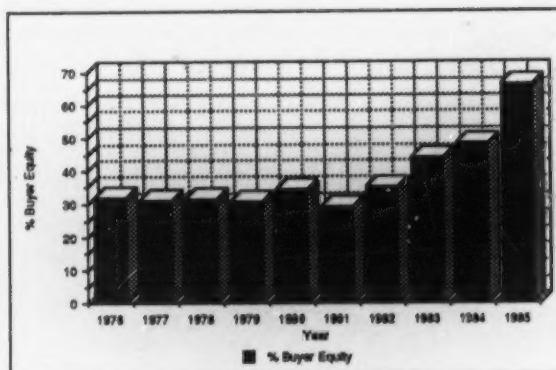


Figure 3
Buyer Equity in Land Transactions
Nebraska Farmland Sales
1976-85

U.S. economy itself will be important. For example, should this country experience accelerated rates of inflation, investor interest in farmland also may increase, reflecting the belief that it represents a good store-of-value and hedge against inflation during such economic times.

Dramatic changes in the structure of the agricultural economy, which are already underway, also carry important connotations for the farmland market. Innovative farm management strategies for the 1990s may dictate greater emphasis on leased capital and less on debt capital. In turn, the presence of the farmer buyer gradually may decline.

Another economic variable is the fickle consumer and his or her changing tastes and preferences regarding food and nutrition. As diet patterns change, significant production shifts both within and among regions of the country are likely in the future, with farmland values adjusting accordingly.

In summary, the number of possible scenarios regarding future farmland value trends is limitless. Although some price stability is appearing on the short-term horizon, major unsettling forces still prevail on all three fronts—the institutional, the biological, and the economic. We remain in a period of rapid change and uncertainty. Only time will tell the outcome.

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